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**FISCAL IMPACT STATEMENT**

**LS 7432**

**BILL NUMBER:** HB 1639

**NOTE PREPARED:** Feb 25, 2005

**BILL AMENDED:** Feb 24, 2005

**SUBJECT:** Film production tax incentives.

**FIRST AUTHOR:** Rep. Lutz J

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** (Amended) This bill authorizes the use of state and university owned property free of charge as locations for making motion pictures. It provides that costs associated with the purchase of machinery, equipment, or special purpose buildings used to make motion pictures or audio productions are qualified investments for purposes of the Hoosier Business Investment Tax Credit. The bill also authorizes the department of workforce development to fund job training in the film production industry from the state workforce development fund. It excludes obscene motion pictures from various incentives.

**Effective Date:** July 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** (Revised) *Hoosier Business Investment Tax Credit:* The expansion of the Hoosier Business Investment Tax Credit to include qualified expenditures related to motion pictures or audio productions could have minimal administrative impact on the Indiana Economic Development Corporation, the Department of State Revenue, and the State Budget Agency.

*Department of Workforce Development:* The bill authorizes the Department of Workforce Development (DWD) to fund job training in the film production industry from the State Workforce Development Fund. The DWD uses the Workforce Development Fund to provide a readjustment program for workers who have been terminated as a result of plant closings and layoffs, and who are unlikely to return to previous occupations or industries. During the FY 2004-FY 2005 biennium, the Fund received an annual General Fund appropriation of about \$2.5 M.

*Department of Administration:* The bill requires the Department of Administration to adopt policies and

procedures for making state-owned property available free of charge as locations for making motion pictures. The Department could absorb any costs associated with this provision.

**Explanation of State Revenues:** (Revised) *Hoosier Business Investment Tax Credit*: The bill extends the Hoosier Business Investment Tax Credit to include qualified expenses used to make motion pictures or audio production during CY 2006 or CY 2007. The credit will only be available for CY 2006 and CY 2007, (due to the current expiration date of this credit), however, unused credits may be carried over for up to nine years. This credit could potentially reduce revenue from the Adjusted Gross Income (AGI) Tax, the Insurance Premiums Tax, and the Financial Institutions Tax by an indeterminable amount.

The Indiana Economic Development Corporation Board is authorized to award a taxpayer (an individual, corporation, partnership, or other entity with a tax liability) a nonrefundable tax credit for expenditures on qualified motion picture costs that the Board determines will foster job creation and higher wages in Indiana. The investment tax credit is equal to 30% of the taxpayer's qualified investment. The credit amount can be used in the taxable year in which the investment is made and the nine taxable years that follow. The credit amount that the taxpayer may claim in the taxable year in which the investment is made is equal to the lesser of: (1) 30% of the qualified investment or (2) the taxpayer's state tax liability growth. The state tax liability growth is the difference between the taxpayer's state tax liability in a taxable year minus the greater of: (1) the taxpayer's state tax liability in the most recent prior taxable year in which part of a credit was claimed or (2) the taxpayer's tax liability in the taxable year immediately preceding the taxable year in which the investment was made. The taxpayer may carry forward any remaining credit amount for the next nine taxable years. In each of these taxable years, the credit amount claimed may not exceed the difference between the taxpayer's tax liability in that taxable year and the taxable year in which the qualified investment was made. The tax credit is limited to the amount of qualified investment that is directly related to expanding the workforce in Indiana; and the tax credit may not be awarded in relation to jobs that a taxpayer is relocating from one Indiana site to another.

This bill also allows the credits which qualify for expenses used to make motion pictures or audio production to be sold, assigned, conveyed or transferred to another taxpayer.

In 2004 (the first year for the Hoosier Business Investment Tax Credit), the EDGE Board (under prior law) approved credits totaling about \$331.7 M for 54 qualified investment projects.

#### **Explanation of Local Expenditures:**

#### **Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue; Department of Workforce Development; State colleges and universities; Department of Administration; Indiana Economic Development Corporation; State Budget Agency.

#### **Local Agencies Affected:**

**Information Sources:** State Budget Agency; Economic Research Associates, *Economic Impact Analysis of Indiana's Film and Video Production Industry*, March 2003; Internal Revenue Service; Claudia Fuentes, Department of Commerce, 317-234-0616.

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